

**REPORT OF THE AUDIT OF THE
FORMER PULASKI COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
April 16, 2014 Through December 31, 2014**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

**AUDIT OF THE
FORMER PULASKI COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
April 16, 2014 Through December 31, 2014**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the former Pulaski County Sheriff for the period April 16, 2014 through December 31, 2014. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected 2014 taxes of \$22,130,325 for the districts, retaining commissions of \$752,503 to operate the former Sheriff's office. The former Sheriff distributed 2014 taxes of \$21,357,590 to the districts. Refunds of \$5,417 are due to the former Sheriff from the taxing districts.

Report Comments:

2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties
2014-002 Franchise Tax Bill Preparation Errors Occurred Due To Lack Of Internal Controls

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2014 TAXES	4
NOTES TO FINANCIAL STATEMENT	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	11
COMMENTS AND RECOMMENDATIONS	15



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Steve Kelley, Pulaski County Judge/Executive
Honorable Todd Wood, Former Pulaski County Sheriff
Honorable Greg Speck, Pulaski County Sheriff
Members of the Pulaski County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Pulaski County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through December 31, 2014 - regulatory basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Steve Kelley, Pulaski County Judge/Executive
Honorable Todd Wood, Former Pulaski County Sheriff
Honorable Greg Speck, Pulaski County Sheriff
Members of the Pulaski County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former County Sheriff, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2014 through December 31, 2014 of the former Pulaski County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2015 on our consideration of the former Pulaski County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the former Pulaski County Sheriff's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the former Pulaski County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Steve Kelley, Pulaski County Judge/Executive

Honorable Todd Wood, Former Pulaski County Sheriff

Honorable Greg Speck, Pulaski County Sheriff

Members of the Pulaski County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

2014-002 Franchise Tax Bill Preparation Errors Occurred Due To Lack Of Internal Controls

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal stroke extending to the right.

Mike Harmon

Auditor of Public Accounts

November 19, 2015

PULASKI COUNTY
TODD WOOD, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period April 16, 2014 Through December 31, 2014

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,599,556	\$ 3,418,660	\$ 13,157,785	\$ 3,826,390
Tangible Personal Property	136,937	359,920	832,417	1,260,605
Fire Protection	869			
Increases Through Exonerations	167	358	1,594	432
Franchise Taxes	18,482	44,248	107,783	
Additional Billings	22	55	160	206
Bank Franchises	235,029			
Penalties	1	3		
Adjusted to Sheriff's Receipt	(73)	(139)	16	(304)
Gross Chargeable to Sheriff	<u>1,990,990</u>	<u>3,823,105</u>	<u>14,099,755</u>	<u>5,087,329</u>
<u>Credits</u>				
Exonerations	5,514	11,849	48,325	251,123
Discounts	31,903	59,368	216,433	76,411
Franchise Taxes - Uncollected	4,762	11,434	25,614	
Transfers To Incoming Sheriff	<u>149,840</u>	<u>322,222</u>	<u>1,273,660</u>	<u>382,396</u>
Total Credits	<u>192,019</u>	<u>404,873</u>	<u>1,564,032</u>	<u>709,930</u>
Taxes Collected	1,798,971	3,418,232	12,535,723	4,377,399
Less: Commissions *	<u>76,456</u>	<u>145,276</u>	<u>344,732</u>	<u>186,039</u>
Taxes Due	1,722,515	3,272,956	12,190,991	4,191,360
Taxes Paid	1,721,745	3,271,526	12,177,356	4,186,963
Refunds (Current and Prior Year)	<u>1,836</u>	<u>3,890</u>	<u>15,526</u>	<u>4,397</u>
(Refunds Due Sheriff)				
as of Completion of Audit	<u>\$ (1,066)</u>	<u>\$ (2,460)</u>	<u>\$ (1,891)</u>	<u>\$ 0</u>

**

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

PULASKI COUNTY
TODD WOOD, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES
For The Period April 16, 2014 Through December 31, 2014
(Continued)

* Commissions:

4.25% on \$ 9,594,602

2.75% on \$ 12,535,723

** Special Taxing Districts:

Library District	\$ (1,536)
Health District	(599)
Extension District	(325)
(Refunds Due Sheriff)	<u>\$ (2,460)</u>

*** School Taxing Districts:

Common School	\$ (1,300)
Science Hill	(591)
(Refunds Due Sheriff)	<u>\$ (1,891)</u>

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Pulaski County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Pulaski County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 22, 2014 through December 31, 2014.

Note 4. Interest Income

The former Pulaski County Sheriff earned \$591 as interest income on 2014 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the former Sheriff's office. As of December 31, 2014 the former Sheriff owed \$71 in interest to his fee account.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts

The former Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The former Sheriff escrowed amounts were as follows:

2010 \$2,270

KRS 393.090 states after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110. On July 17, 2014 the former Sheriff sent a written report to the Kentucky State Treasurer and submitted \$2,270 in accordance with KRS 393.090.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Kelley, Pulaski County Judge/Executive
Honorable Todd Wood, Former Pulaski County Sheriff
Members of the Pulaski County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the former Pulaski County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through December 31, 2014 - regulatory basis and the related notes to the financial statement and have issued our report thereon dated November 19, 2015. The former Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Pulaski County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Pulaski County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Pulaski County Sheriff's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, which are described in the accompanying comments and recommendations as items 2014-001 and 2014-002 that we consider to be significant deficiencies.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Pulaski County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comments and recommendations as item 2014-002.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

November 19, 2015

COMMENTS AND RECOMMENDATIONS

PULASKI COUNTY
TODD WOOD, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2014 Through December 31, 2014

FINANCIAL STATEMENT FINDINGS:

2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office lacked adequate segregation of duties. The bookkeeper collected payments from customers, prepared monthly tax reports, prepared daily payment journals, prepared daily deposits, prepared and signed monthly tax distribution disbursements, and prepared the monthly bank reconciliations. The bookkeeper performed the majority of the receipt and disbursement functions. The former Sheriff reviewed the monthly bank reconciliations and initialed, documenting his review. Per discussion with the bookkeeper, the former Sheriff reviewed the monthly tax collection reports and compared to the tax distribution disbursements prior to signing the checks. However, the monthly reports were not signed. There were two signatures on all disbursements with one being the former Sheriff. In addition, the daily payment journal prepared by the bookkeeper was reviewed and initialed by the fee account bookkeeper. The compensating controls in place were not sufficient to offset the control deficiency.

Lack of oversight could result in undetected misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts.

A segregation of duties over various accounting functions such as collecting cash, preparing deposits, preparing monthly reports, preparing monthly bank reconciliations or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Due to a lack of sufficient compensating controls, we consider this to be a significant deficiency.

To adequately protect against misappropriation of assets and inaccurate financial reporting, the former Sheriff should have separated the duties involving collecting and depositing of cash, preparing daily payment journals, preparing monthly reports, and preparing monthly bank reconciliations. If that was not feasible due to a limited number of staff, the former Sheriff should have provided strong oversight over these areas and/or involved an employee not currently performing any of these functions. All compensating controls should have been documented on the appropriate source document.

Former Sheriff's Response: No response.

PULASKI COUNTY
TODD WOOD, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2014 Through December 31, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-002 Franchise Tax Bill Preparation Errors Occurred Due To A Lack Of Internal Controls

Franchise tax bill preparation errors occurred due to a lack of internal controls. The following errors were noted:

- A 2012 aviation franchise bill incorrectly listed an assessment as being charged to the common school when it should have only been the city school district. This resulted in the vendor overpaying the tax bill by \$120.
- A two-percent discount was allowed on two amended franchise tax bills, resulting in taxpayers underpaying tax bills by a total of \$6.
- An amended telecommunications franchise bill was prepared incorrectly. The original franchise bill was paid on March 3, 2014 and was amended on October 17, 2014. The amended bill did not give credit to the taxpayer for the amount paid on March 3, 2014. Therefore, the taxpayer was billed for the entire assessment, which resulted in the taxpayer overpaying the tax bill by \$5,878.

The above errors occurred due to a lack of review and internal controls over the franchise bill preparation process. As a result of the errors, taxpayers either owe additional tax monies or are due a refund. In addition, taxing districts were paid inaccurate monthly tax distributions.

Good internal controls dictate strong oversight over franchise bill preparation and should have been in place to ensure all bills were accurate. This would have ensured taxpayers were paid correct amounts and the taxing districts received the proper amount due. Additionally, KRS 134.015(6) states, in part, "A tax bill issued against omitted property, or an increase in valuation over that claimed by the taxpayer...shall be due the day the bill is prepared and shall be considered delinquent on that date." Therefore, amended bills are not eligible for the two percent discount.

The former Sheriff should contact the taxing districts and taxpayers paid in error, and collect or refund the payment errors. Additionally, the former Sheriff, in connection with the County Clerk, should have had internal controls in place to ensure all franchise bills were reviewed and accurate and were in compliance with KRS 134.015(6).

Former Sheriff's Response: No response.

